

Message Text

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UNCLAS ANKARA 1643

FOR EXPORT-IMPORT BANK AND TREASURY DEPARTMENT

E.O.11652: N/A

TAGS: EFIN, TU

SUBJECT: TURKISH GOVERNMENT MOVES TO ENCOURAGE MEDIUM AND
LONG-TERM CONVERTIBLE LIRA DEPOSITS

REF: ANKARA 0567

1. TURKISH MINISTRY OF FINANCE ISSUED COMMUNIQUE MARCH 1
AIMED AT SHIFTING TERM STRUCTURE OF CONVERTIBLE LIRA
"DEPOSITS" (LOANS) FROM RELATIVELY SHORT MATURITIES, AS AT
PRESENT, TO MEDIUM OR LONG-TERM MATURITIES AND PUTTING
UNDER DISCIPLINE THE UTILIZATION OF TURKISH-LIRA
COUNTERPART OF THOSE DEPOSITS WITHIN TURKEY.

2. EFFECTIVE APRIL 1, 1977, CENTRAL BANK WILL APPLY
GRADUATED INTEREST-RATE SCHEDULE TO NEW CONVERTIBLE LIRA
DEPOSITS (CLD'S), ABANDONING PRESENT FLAT RATE OF 1.75
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PERCENT OVER LONDON INTERBANK OFFER RATE (LIBOR).
(OLD RATE WILL APPLY THROUGHOUT MARCH.) FOLLOWING
PERCENTAGE SPREADS OVER LIBOR WILL BE OFFERED FOR DEPOSITS
OF
3 MONTHS (MINIMUM ACCEPTABLE MATURITY) 3/4
6MONTHS 1
12 MONTHS 1 1/2

18 MONTHS 1 3/4
24 MONTHS 1 7/8
36 MONTHS 2
48 MONTHS 2 1/8
60 MONTHS AND OVER 2 1/4

IN SHORT, INTEREST RATES WILL BE LOWERED FOR DEPOSITS OF LESS THAN 18 MONTHS' MATURITY AND RAISED FOR THOSE ABOVE 18 MONTHS. IN ADOPTING NEW GRADUATED INTEREST-RATE STRUCTURE, FINANCE MINISTRY IS ABANDONING INTEREST RATE CEILING, CURRENTLY 9 PERCENT, ON CLD'S.

3. TREATMENT OF EXISTING DEPOSITS.

A. WITHIN SIX MONTHS OF MARCH 1, CURRENTLY HELD CONVERTIBLE LIRA SIGHT DEPOSITS MUST BE TURNED INTO TIME ACCOUNTS OR WITHDRAWN.

B. WITH RESPECT TO CURRENTLY HELD TIME DEPOSITS

(1) THOSE WITH MATURITIES OF 13 MONTHS OR LESS WHICH COME DUE AFTER APRIL 1, 1977, MAY BE EXTENDED FOR A TOTAL OF ONE YEAR AT THE RATE OF INTEREST OF LIBOR PLUS 1.75. THEREAFTER, NEW SPREADS WILL APPLY.

(2) THOSE WITH MATURITIES OVER 13 MONTHS WHICH COME DUE AFTER APRIL 1, 1977, MAY BE EXTENDED UNDER THE TERMS OF THE NEW SPREAD SYSTEM.

4. TIGHTER CENTRAL BANK CONTROL OVER CLD'S. NEW REGULATIONS WERE INTRODUCED WITH THE INTENTION OF GIVING THE CENTRAL BANK AND THE MINISTRY OF FINANCE INCREASED CONTROL OVER ALLOCATION OF CONVERTIBLE LIRA COUNTERPART. REGULATIONS ENCOURAGE COMMERCIAL BANKS TO GIVE PRIORITY UNCLASSIFIED

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TO EXTENDING MEDIUM-TERM CREDITS TO INDUSTRY, MINING, SHIPBUILDING, SHIPYARD CONSTRUCTION, AND TOURISM. TURKISH COMMERCIAL BANKS MUST NOW REPORT MONTHLY TO CENTRAL BANK ON SOURCES, TERMS, CONDITIONS, AND SECTORAL DISTRIBUTION OF THEIR COUNTERPART LOANS.

5. ANTI-INFLATIONARY PROVISIONS. A FURTHER CHANGE IN THE REGULATIONS, EFFECTIVE MARCH 1, WILL DENY TURKISH COMMERCIAL BANKS PROFITS ON EXCHANGE-RATE ADJUSTMENTS. IN THE PAST, WHENEVER THERE WAS A DEVALUATION OF THE TURKISH LIRA (AND EXCHANGE-RATE ADJUSTMENTS HAVE BEEN CONSISTENTLY IN THE DIRECTION OF NET DEVALUATION OVER PAST FEW YEARS), CENTRAL BANK IMMEDIATELY PAID TO THE COMMERCIAL BANKS IN WHICH COUNTERPART FUNDS HAD BEEN DEPOSITED THE DIFFERENCE BETWEEN THE OLD AND NEW RATES. BANKS USED WINDFALL TO EXPAND THEIR LENDING, WITH INFLATIONARY IMPACT UPON ECONOMY. UNDER NEW REGULATIONS, CENTRAL BANK WILL HOLD THE DIFFERENCE IN A SPECIAL ACCOUNT, RELEASING IT LY WHEN THE BANKS ARE DUE TO REPAY THE TURKISH LIRA EQUIVALENT

OF THE FOREIGN LOAN. SINCE THE BANKS WILL BE REQUIRED TO REPAY AT THE PREVAILING RATE OF EXCHANGE, THEY WILL NOW REALIZE NO EXCHANGE PROFITS.

6. OPTIMISM OF CENTRAL BANK OFFICIALS. EMBOFFS DISCUSSED CHANGES WITH CENTRAL BANK GOVERNOR TAYYAR SADIKLAR AND MEMBERS OF HIS STAFF AT SMALL GATHERING AT AMBASSADOR'S RESIDENCE MARCH 2 TO WELCOME THEM BACK FROM THEIR RECENT TRIP TO THE UNITED STATES AND EUROPE. GOVERNOR SAID THAT MAIN PURPOSE OF TRIP HAD BEEN TO TEST ALTERNATIVE MEANS OF SHIFTING TURKEY'S SHORT-TERM BORROWINGS INTO MEDIUM AND LONGER TERMS WITH BANKERS. AFTER HIS MEETINGS, HE HAD DECIDED ON NEED TO EMPLOY GRADUAL STEPS TO EFFECT CONVERSION AND HAD SET ASIDE MORE DRASTIC ALTERNATIVE OF ANNOUNCING ON A GIVEN DATE THAT GOT WOULD NO LONGER ACCEPT CLD'S OF LESS THAN -- FOR EXAMPLE -- THREE YEARS' MATURITY AND OFFERING LENDERS OPTION OF CALLING IN THEIR UNCLASSIFIED

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SHORT-TERM DEPOSITS AT MATURITY OR EXTENDING THEM TO NEW MINIMUM LENGTH (REFTEL). GOVERNOR SAID THAT HE HAD FOUND STRONG SUPPORT FOR SCHEME JUST ANNOUNCED AND WAS SATISFIED THAT IT WILL HURT NEITHER TURKEY NOR ITS CREDITORS. FURTHER, HE BELIEVED THAT, UNDER IT, TURKEY WILL NOT EXPERIENCE SUBSTANTIAL WITHDRAWALS THAT COULD BE EXPECTED UNDER MORE DRASTIC SCHEME AND THAT FOREIGN BORROWINGS OF \$500-600 MILLION WHICH WOULD BE REQUIRED IN LATTER CASE SIMPLY TO MEET REPAYMENT DEMANDS WERE NOT NOW NECESSARY.

7. COMMENT. NEW REGULATIONS ARE ATTEMPT TO PROMOTE INFLOW OF LONGER-TERM CLD'S WITHOUT SCARING OFF PRESENT DEPOSITORS. CENTRAL BANK ADMITS THAT 70 PERCENT OF CURRENT CLD DEPOSITS ARE 13 MONTHS OR LESS. OWNERS OF THESE DEPOSITS NOW HAVE ONE YEAR DURING WHICH THEY CAN CONTINUE TO RECEIVE 1.75 PERCENT OVER LIBOR WHILE THEY DECIDE WHETHER THEY WANT TO GET OUT, STAY SHORT-TERM WITH LESS INTEREST OR GO FOR DEPOSITS OF 18 MONTHS OR LONGER. NEW DEPOSITORS, ON OTHER HAND, ARE BEING OFFERED INCENTIVES TO GO 18 MONTHS OR LONGER. JAOR QUESTION IN MINDS OF MANY DEPOSITORS, WHICH IS UNANSWERED IN MINISTRY OF FINANCE COMMUNIQUE, IS ISSUE OF FRONT-END FEES, COMMISSIONS, ETC. SINCE BULK OF DEPOSITORS RECEIVED HIGHER RATE THAN LIBOR PLUS 1.75 PERCENT IN ANY CASE, HIGHER OFFICIAL RETURN WILL NOT NECESSARILY CONTRIBUTE TO THEIR WILLINGNESS TO TAKE LONGER EXPOSURE. HIGHER INTEREST RATE ON MATURITIES OF OVER 18 MONTHS, ADDED TO FACT THAT TURKISH BANKS MUST NOW REPORT MONTHLY ON FOREIGN SOURCES AND AND TERMS OF DEPOSITS MAY INDUCE MORE FOREIGN DEPOSITORS TO STAY LEGAL OR STAY OUT.

8. PREVIOUS CONVERTIBLE LIRA SYSTEM WHICH PAID LIBOR PLUS 1.75 PERCENT FOR SHORT-TERM DEPOSITS HAD NEGATIVE IMPACT ON TURKISH ABILITY TO RAISE MEDIUM-TERM EURO-CURRENCY LOANS. NEW SYSTEM WHICH OFFERS RETURN OF LIBOR
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PLUS 2.25 FOR 60 MONTH DEPOSITS WILL UNDOUBTEDLY HAVE EFFECT OF FORCING TURKEY TO PAY HIGHER SPREAD IN FUTURE SYNDICATED BORROWING. WHEN QUESTIONED ON THIS POINT, CENTRAL BANK DIRECTOR GENERAL OF FOREIGN EXCHANGE SAID CLD'S EXPOSED LENDER TO MORE RISK THAN DID SYNDICATED LOANS GUARANTEED BY GOT, BUT THAT GOT RECOGNIZED THAT RANGE OF INTEREST RATES FOR FUTURE SYNDICATED LOANS WOULD BE BETWEEN LIBOR PLUS 1.75 AND 2.25 PERCENT.

9. AS MENTIONED ABOVE, NEW REGULATIONS FORCES COMMERCIAL BANKS TO REPORT MONTHLY ON SOURCES AND TERMS OF FORIENG DEPOSITS AS WELL AS SECTORAL ALLOCATIONS OF LIRA COUNTER-PART. SINCE MONEY IS FUNGIBLE, THIS REGULATION MAY WELL BE SUBVERTED BY TURKISH COMMERCIAL BANKS. NEVERTHELESS, THE EFFORT TO LEARN MORE ABOUT NATURE OF CLD'S HAS LONG BEEN NEEDE. EMBOFF WAS SURPRISED TO DISCOVER, FOR EXAMPLE, THAT CENTRAL BANK LEARNED ON RECENT TRIP TO UNITED STATES THAT MUCH OF CLD'S WENT TO FINANCE IMPORTS (THIS FACT HAS BEEN COMMON KNOWLEDGE ON PART OF BOTH FOREIGN AND TURKISH COMMERCIAL BANKING SECTORS FOR SEVERAL MONTHS) AND THAT CENTRAL BANK HAD TO ASK NEW YORK BANKS WHAT THE EXTENT OF THEIR CLD'S WERE.

10. WHILE EMBASSY AGREES WITH CENTRAL BANK ASSESSMENT THAT THERE IS UNLIKELY TO BE ANY NET WITHDRAWAL OF CLD'S IN SHORT TERM, WE ARE NOT AS SANGUINE AS TURKISH AUTHORITIES ARE ABOUT NEW INFLOWS EXPECTED. GOT SAID IN 1977 PROGRAM THAT \$1,260 MILLION BASIC EXTERNAL DEFICIT WOULD BE FINANCED BY SHORT-TERM CAPITAL INFLOWS. AFTER NEW REGULATIONS WRE ANNOUNCED, MINISTER OF FINANCE REMARKED THAT DEFICIT WOULD BE FINANCED BY "MEDIUM-TERM" CAPITAL INFLOW. REALITIES OF TURKISH ECONOMIC SITUATION DO NOT CHANGE THIS QUICKLY. LARGE INFLOWS OF SHORT AND MEDIUM-TERM CAPITAL ARE NEEDED TO GET GOT THROUGH 1977 IF ECONOMY IS TO MAINTAIN TARGETED HIGH GROWTH RATE.
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THIS REGUALTION IS ONLY ONE SMALL POSITIVE STEP IN THIS

DIFFICULT UNDERTAKING.
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Message Attributes

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